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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

ARIZONA CORPORATION COMMISSION

MEMORANDUM

TO: Kristin K. Mayes, Chairman
Gary Pierce, Commissioner
Paul Newman, Commissioner
Sandra D. Kennedy, Commissioner
Bob Stump, Commissioner

Arizona Corporation Commission

DOCKETED

NOV 22 2010

FROM: Matthew J. Neubert *mp*
Director of Securities

DOCKETED BY *[Signature]*

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ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DATE: November 18, 2010

RE: Proposed Order to Cease and Desist, for Restitution, and for Administrative Penalty regarding Norstreet Portfolio, LLC, Nathan Nordstrom, and Lorrie Beckham, Docket No. S-20759A-10-0387

CC: Ernest G. Johnson, Executive Director

Please find attached a proposed Order to Cease and Desist, for Restitution, and for Administrative Penalty ("Default Order") regarding Norstreet Portfolio, LLC ("Norstreet"), Nathan Nordstrom ("Nordstrom") (collectively, "Respondents"), and Lorrie Beckham ("L. Beckham"). The Default Order requires the aforementioned parties to cease and desist from violating the Securities Act, pay restitution to investors in the principal amount of \$1,076,000, and pay an administrative penalty in the amount of \$50,000. A copy of the notice was personally served on Nordstrom on September 28, 2010. A copy of the notice was personally served on L. Beckham on September 30, 2010. A copy of the notice was personally served on C. William Mulligan, attorney for Norstreet, on October 4, 2010. Norstreet, Nordstrom and L. Beckham have failed to request a hearing and answer the allegations in the notice within the prescribed time limits.

From on or about May 14, 2007, to July 1, 2008, Respondents offered or sold securities in the form of investment contracts, within or from Arizona. The monies were to be used by Respondents to complete two different residential developments. The developments would be sold at a profit and all investors would receive a return of principal and a percentage share in the profits.

The Default Order finds that Respondents violated A.R.S. §§44-1841 and 44-1842 by selling unregistered securities while being unlicensed. In addition, the Default Order finds that Respondents violated A.R.S. §44-1991 because there were untrue statements or misleading omissions of material fact. The Division believes that the Default Order is appropriate to protect the public welfare.

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www.azcc.gov

Originator: Phong (Paul) Huynh

1 Nordstrom, L. Beckham, and Norstreet have failed to file an Answer within 30 days of service of
2 the Notice, pursuant to A.A.C. Rule R14-4-305.

3 **I.**

4 **FINDINGS OF FACT**

5 1. Norstreet Portfolio, LLC (“Norstreet”) is an Arizona limited liability company
6 organized on May 9, 2007. The management of Norstreet is reserved to the managers.

7 2. Nathan Nordstrom (“Nordstrom”) is a manager of Norstreet. Nordstrom, on behalf of
8 Norstreet, conducted business and/or did business as and through Norstreet, as its manager.

9 3. Wayne Scott Clague (“Clague”) is a manager of Norstreet.

10 4. Nordstrom and Norstreet may be referred to collectively as “Respondents.”

11 5. From April 27, 2007, through January 29, 2010, Lorrie Beckham (“L. Beckham”) was
12 the spouse of Respondent Nordstrom. On September 17, 2009, a petition of dissolution of marriage
13 was filed in Arizona (FN2009-052393) and a decree of dissolution of marriage of Nordstrom and L.
14 Beckham was entered on January 29, 2010.

15 6. L. Beckham may be referred to as “Respondent Spouse.” Respondent Spouse is joined
16 in this action under A.R.S. § 44-2031(C) solely for purposes of determining the liability of the marital
17 community.

18 7. At all times relevant, Respondent Nordstrom was acting for his own benefit and for the
19 benefit or in furtherance of his and Respondent Spouse’s marital community.

20 8. In or around May 2007, Nordstrom and Clague discussed raising capital to fund
21 Norstreet real estate development projects. Clague was tasked with finding investors to provide
22 capital to Norstreet.

23 9. Nordstrom and Clague agreed that there would be a five percent (5%) commission
24 paid to the party that secured the investment capital. The five percent (5%) would be based on the
25 total amount invested by an investor.

26

1 10. On or about May 8, 2007, Nordstrom and Clague executed an Operating Agreement
2 for Norstreet Portfolio, LLC (“Operating Agreement”).

3 11. The Operating Agreement included the following relevant terms or provisions:

4 a) “1.3. *Purpose*. The purpose and business of this Company shall be to raise
5 capital to fund real estate development. [...]. The Company may engage in other business or
6 acquire other assets only on the vote of the Managing Members;

7 b) 4.1.1.1. First, Profits shall be allocated proportionately among the Members
8 until the cumulative Profits allocated to each Member [...] equal the cumulative Priority Return
9 (22%) [....];

10 c) 4.1.1.2. Second, any profits greater than the Priority Return shall be
11 allocated to the Managing Members in accordance with their Percentage Interests;

12 d) 5.1.1. *Member-managed*. The Members agree that the management of the
13 Company shall be vested in the Managing Members, The Managing Members are Nathan
14 Nordstrom and Scott Clague. Nathan shall control [...51%...] and Scott Clague shall control
15 [...49%...] of the Company’s authority. [...]. There shall be no further Managing Members;

16 e) 6.1. *Purpose*. The purpose of adding Members to the Company is to obtain
17 additional capital;

18 f) 6.4 *Management*. Members have no management authority;

19 g) 6.5 *Voting*. Members have no ownership in the Company;

20 h) 6.8 *Interest*. If any real estate venture obtains a profit, Members shall receive
21 interest at a rate up to, but not to exceed, twenty two (22) percent *per annum* of any capital
22 contribution; and

23 i) 10.4. *Amendment*. This Agreement may only be amended, restated, or
24 revoked by the written consent of the Managing Members.”

25 12. After payments to investors, any profit still available would be split between
26 Nordstrom and Clague pursuant to the Operating Agreement terms.

1 13. Nordstrom offered and sold to an Arizona resident ("investor") a real estate
2 investment opportunity involving properties located in Hawaii ("Hawaii Project"). The residential
3 properties located in Hawaii would be rehabilitated, renovated, and resold.

4 14. Nordstrom also provided investors with information about re-platting one of the
5 Hawaii properties so that Norstreet could build and resell an additional residential structure or
6 condominium.

7 15. In addition, Nordstrom offered an investor a real estate investment opportunity
8 involving a residential property located in Washington D.C. ("D.C. Project"). The D.C. Project
9 property would be re-platted and reconstructed into three residential properties or condominiums
10 and then resold by Norstreet.

11 16. Between May 2007, and August 2007, certain investors were told that the Hawaii
12 Project and/or the D.C. Project were close to completion and/or that completion would occur
13 within three months.

14 17. Nordstrom stated to investors that their monies would be used for construction and
15 renovation costs required to complete the projects. Upon completion, the Respondents would sell
16 the properties at a profit to repay the investors' principal and interest.

17 18. Nordstrom told investors that a rate of return of twenty-two percent (22%) could be
18 obtained from the investments.

19 19. Nordstrom provided investors with projected financials for the Hawaii Project and
20 the D.C. Project, which showed projected rates of return of twenty-two percent (22%) or greater.

21 20. Nordstrom told at least one investor that Norstreet had acquired the Hawaii
22 properties from the property owners through foreclosure bailouts.

23 21. Nordstrom told at least one investor that the investor's money would be used solely
24 to rehabilitate, renovate, or construct the residential properties located in Hawaii and/or
25 Washington D.C.

26

1 22. Nordstrom told investors that their investments would be secured by real estate of
2 the project property; however, Norstreet did not have title, free and clear, on the D.C. Project
3 property or the Hawaii Project properties to secure the investors' investments. In addition,
4 Norstreet did not execute a deed of trust, for the benefit of investors or Norstreet, on the project
5 properties.

6 23. Nordstrom stated to the investors that upon completion of one or more projects,
7 Respondents would create additional investment opportunities by purchasing, rehabilitating, and
8 reselling more real estate properties. Investors could choose to withdraw their principal and profits
9 or roll them over into a new real estate investment opportunity created by Respondents.

10 24. At least six Arizona residents invested after a meeting and/or discussion with
11 Nordstrom.

12 25. Between the periods of May 14, 2007, to July 1, 2008, at least six investors
13 executed a document titled, Amendment to Operating Agreement of Norstreet Portfolio, LLC
14 ("Amendment"). The Amendment was also signed by Nordstrom and Clague, as managing
15 members.

16 26. The Amendment stated that the investor would become a member of Norstreet on
17 the effective date listed in the document. The investor's membership interest would be based on the
18 amount of investment.

19 27. The Amendment also evidenced each investor's investment amount by specifying
20 the amount of money provided to Norstreet.

21 28. The Amendment stated that an investor could earn up to twenty-two percent (22%)
22 per annum.

23 29. Though each investor was made a member of Norstreet, the Amendment stated that
24 the investor had no management authority, no voting power, and no ownership in Norstreet. The
25 investor did not have any day-to-day or operational control over the Hawaii Project or the D.C.
26 Project.

1 30. Nordstrom made trips to Hawaii and Washington, respectively, during development
2 of the projects.

3 31. Nordstrom was in charge of the day-to-day operations, such as choosing and
4 overseeing the construction contractor, choosing the manner and method of rehabilitation or
5 renovation, and overseeing the sales of the properties. Nordstrom met with several builders,
6 interviewed the builders, obtained cost breakdowns, met with architects, and met with an attorney
7 to start the condominium property regime ("CPR") process.

8 32. In addition, Nordstrom determined which project to allocate the investor monies to,
9 what costs to incur, and the order of development.

10 33. Nordstrom chose to re-plat one of the Hawaii properties and construct an additional
11 residential structure. In general, a CPR and a public report filed with the state of Hawaii are
12 required to offer for sale such a re-plat and residential structure addition.

13 34. Nordstrom failed to disclose that the Hawaii Project was not ready for resale as a
14 project within the three-month time frame discussed because Respondents had failed to obtain all
15 required approvals from the state of Hawaii. In fact, the state of Hawaii CPR application for the
16 project did not get filed until on or about April 16, 2008, and a final public report did not become
17 effective until November 18, 2009.

18 35. Pursuant to Hawaii Revised Statutes, chapter 514A-31(a), "[n]o offer of sale or sale
19 shall be made until the project has been registered with the commission and the commission has
20 issued an effective date for the project's preliminary, contingent final, or final public report."

21 36. Nordstrom failed to disclose to the investors that some of the investors' monies
22 were used for purposes other than for rehabilitation, renovations and construction. Respondents
23 submitted payments to the mortgagors of the properties to allow the mortgagors to make mortgage
24 interest payments that were still due and outstanding on the properties. In addition, investor monies
25 were used by Nordstrom to make multiple loans to the Hawaii mortgagor.

26 37. To date, neither the Hawaii Project nor the D.C. Project has been sold by Norstreet.

1 38. At all times relevant, Respondents were not registered as salesmen or dealers.

2 39. Respondents raised \$1,076,000 from at least six investors.

3 40. Nathan Nordstrom is a person controlling Norstreet, within the meaning of A.R.S.
4 § 44-1999, so that he is jointly and severally liable under A.R.S. § 44-1999 to the same extent as
5 Norstreet, for violations of the Securities Act.

6 **II.**

7 **CONCLUSIONS OF LAW**

8 1. The Commission has jurisdiction over this matter pursuant to Article XV of the
9 Arizona Constitution and the Securities Act.

10 2. Respondents offered or sold securities within or from Arizona, within the meaning
11 of A.R.S. §§ 44-1801(15), 44-1801(21), and 44-1801(26).

12 3. Respondents violated A.R.S. § 44-1841 by offering or selling securities that were
13 neither registered nor exempt from registration.

14 4. Respondents violated A.R.S. § 44-1842 by offering or selling securities while
15 neither registered as dealers or salesmen nor exempt from registration.

16 5. Respondents violated A.R.S. § 44-1991(A)(2) by making an untrue statement or
17 omitting to state a material fact necessary in order to make the statement made, in light of the
18 circumstances under which they were made, not misleading. The conduct includes, but is not limited
19 to, the following:

20 a) Nordstrom told investors that their investments would be secured by real
21 estate of the project property; however, Norstreet did not have title, free and clear, on the D.C.
22 Project property or the Hawaii Project properties to secure the investors' investments. In addition,
23 Norstreet did not execute a deed of trust, for the benefit of investors or Norstreet, on the project
24 properties.

25 b) Nordstrom failed to disclose that the Hawaii Project was not ready for resale
26 as a project within the three-month time frame discussed because Respondents had failed to obtain

1 all required approvals from the state of Hawaii. In fact, the state of Hawaii CPR application for the
2 project did not get filed until on or about April 16, 2008, and a final public report did not become
3 effective until November 18, 2009.

4 c) Nordstrom failed to disclose to the investors that some of the investors'
5 monies were used for purposes other than for rehabilitation, renovations and construction.
6 Respondents submitted payments to the mortgagors of the properties to allow the mortgagors to
7 make mortgage interest payments that were still due and outstanding on the properties. In addition,
8 investor monies were used by Nordstrom to make multiple loans to the Hawaii mortgagor.

9 6. Nordstrom is a person controlling Norstreet within the meaning of A.R.S. § 44-
10 1999. Therefore, Nordstrom is jointly and severally liable to the same extent as Norstreet for
11 violations of A.R.S. § 44-1991.

12 7. Respondents' conduct is grounds for a cease and desist order pursuant to A.R.S.
13 § 44-2032.

14 8. Respondents' conduct is grounds for administrative penalties under A.R.S. § 44-
15 2036.

16 III.

17 ORDER

18 THEREFORE, on the basis of the Findings of Fact, Conclusions of Law, the Commission
19 finds that the following relief is appropriate, in the public interest, and necessary for the protection
20 of investors:

21 IT IS ORDERED, pursuant to A.R.S. § 44-2032, that Respondents, and any of
22 Respondents' agents, employees, successors and assigns, permanently cease and desist from
23 violating the Securities Act.

24 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2032, that Respondents
25 individually, and the marital community of Respondent Nordstrom and Lorrie Beckham, jointly
26 and severally with anyone who an order is entered against under this docket number, shall pay

1 restitution to the Commission in the principal amount of \$1,076,000. Any principal amount
2 outstanding shall accrue interest at the rate of 10 percent per annum from the date of purchase until
3 paid in full. Interest in the amount of \$326,599 has accrued from the date of purchase to
4 December 1, 2010. Payment shall be made in full on the date of this Order. Payment shall be
5 made to the "State of Arizona" to be placed in an interest-bearing account controlled by the
6 Commission.

7 The Commission shall disburse the funds on a pro-rata basis to investors shown on the
8 records of the Commission. Any restitution funds that the Commission cannot disburse because an
9 investor refuses to accept such payment, or any restitution funds that cannot be disbursed to an
10 investor because the investor is deceased and the Commission cannot reasonably identify and
11 locate the deceased investor's spouse or natural children surviving at the time of the distribution,
12 shall be disbursed on a pro-rata basis to the remaining investors shown on the records of the
13 Commission. Any funds that the Commission determines it is unable to or cannot feasibly
14 disburse shall be transferred to the general fund of the state of Arizona.

15 IT IS FURTHER ORDERED, pursuant to A.R.S. § 44-2036, that Respondents,
16 individually, and the marital community of Respondent Nordstrom and Lorrie Beckham, jointly
17 and severally shall pay an administrative penalty in the amount of \$50,000. Payment shall be
18 made to the "State of Arizona." Any amount outstanding shall accrue interest as allowed by law.

19 IT IS FURTHER ORDERED that payments received by the state of Arizona shall first be
20 applied to the restitution obligation. Upon payment in full of the restitution obligation, payments
21 shall be applied to the penalty obligation.

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1 IT IS FURTHER ORDERED that this Order shall become effective immediately.

2 BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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5 CHAIRMAN

COMMISSIONER

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7 COMMISSIONER

COMMISSIONER

COMMISSIONER

8
9 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
10 Executive Director of the Arizona Corporation
11 Commission, have hereunto set my hand and caused the
12 official seal of the Commission to be affixed at the
13 Capitol, in the City of Phoenix, this _____ day of
14 _____, 2010.

15 _____
16 ERNEST G. JOHNSON
17 EXECUTIVE DIRECTOR

18
19 _____
20 DISSENT

21
22 _____
23 DISSENT

24 This document is available in alternative formats by contacting Shaylin A. Bernal, ADA
25 Coordinator, voice phone number 602-542-3931, e-mail sabernal@azcc.gov.

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SERVICE LIST FOR:

ORDER TO CEASE AND DESIST, FOR RESTITUTION, AND
FOR ADMINISTRATIVE PENALTY RE: NORSTREET
PORTFOLIO, LLC, NATHAN NORDSTROM, AND LORRIE
BECKHAM (F/K/A LORRIE NORDSTROM)

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